

Notes from the Audit Committee Working Group meeting, 11 June 2019

In Attendance:

Members: Cllr. McGarvey (Chairman)

Cllr. Kitchener

Cllr. Morris

Cllr. Pender

Officers: Adrian Rowbotham, Chief Finance Officer

Alan Mitchell, Head of Finance

Apologies: None

The Head of Finance explained that the purpose of this working group is to assist the Audit Committee in fulfilling its terms of reference, namely

- To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies, including International Financial Reporting Standards (IFRS), have been followed and whether there are concerns arising from the financial statement or from the audit that need to be brought to the attention of the council.
- To approve the statutory statement of accounts when the deadline for approval does not allow approval by full council (though not anticipated this year)
- To consider the external auditors' report to those charged with governance on issues arising from the audit of the accounts and comments received from the district auditor.

As points 2 and 3 cannot be fulfilled until the Audit Committee, the purpose of this meeting is to support point 1.

The accounts themselves are a very complicated and technical document as they are produced to comply with the CIPFA code of practise as well as the relevant IFRS (International Financial Reporting Standards).

Draft accounts have to be published by 31 May. The draft accounts are then audited (the auditors are Grant Thornton or GT) and they will go over every aspect of the accounts to ensure they correctly comply with the code. Throughout the audit process they work closely with the Finance Team to ensure they have sufficient evidence on which to base their opinion.

They produce a management report which is then presented to the Audit Committee (on 19 July) which sets out their findings. Audit Committee Members will have the chance to ask the auditors any questions at that meeting.

If approved, the Chief Finance Officer and Audit Committee Chairman will then sign the accounts. The auditors themselves have until 31 July to sign the accounts.

The Member Working Group reviewed the Draft Statement of Accounts, discussing the document section by section.

Narrative Report

The narrative report links the performance of the organisation to the financial results of the year. It details what has been achieved and the Council's successes. It also contains details of corporate risks. Risk information is presented at high level - highlighting the more significant risks and the mitigating actions. Further information in relation to corporate risks are shared with Members at Committees during the year.

The Narrative Report is the area where there is flexibility as to what is included and how it is presented and is therefore the section of the accounts where the Member Working Group can recommend changes.

The Member Working Group commented that Chart 1 - Spending on front line services 2018/19 - was not easily read and would be improved if it was presented in the same way as Chart 2 - Funding Sources 2018/19. This change has been made to the final version of the Statement of Accounts.

The Member Working Group also recommended that mention of Sevenoaks Town Car Park should be included within the Cash Flow paragraphs as an example of the investment in property assets.

ACTION: Question to be raised at the Audit Committee on 18/07/19, as a matter of formality:

- Do the external auditors think that the main risks are covered?

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost.

The Member Working Group worked through the statement and commented as to whether the sub totals and totals could be made clearer.

ACTION: The Head of Finance to speak to Grant Thornton regarding making sub totals and totals easier to understand for the reader of the accounts.

Movement in Reserves Statement

The Movement in Reserves Statement shows the movement from the start of the year to the end on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can currently be used to fund expenditure or reduce local taxation) and other 'unusable' reserves. It shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices. The Net Increase/Decrease line shows the statutory General Fund balance movements in the year following those adjustments.

The Member Working Group noted that Usable Reserves had increased from £23.725m to £25.057m.

Balance Sheet

The Balance Sheet shows the value (as at the Balance Sheet date) of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories: the first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt); the second category of reserves represents those that the authority is not able to use to provide services - this category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

ACTION: Question to be raised at the Audit Committee on 18/07/19:

- Can the external auditors explain the position of the Local Government Pension liabilities and the differences in valuation methods used between the method used in the accounts and the method used for the triennial valuation?

Cash Flow

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

Notes to the Core Statements

The Statement of Accounts includes 39 disclosure notes covering a wide range of areas.

The Member Working Group asked several questions which the Head of Finance answered and provided clarification on a number of the notes. Many figures were examined in detail, and for anyone unfamiliar with Local Authority financial reporting, it might help to remind Members that because a Local Authority is a net spender (on services etc) rather than a business that generates income for profit; the norm is to report income as a negative, and expenditure as a positive figure (Balance Sheet excepted).

Review of the Grant Thornton Annual Audit Letter for year ending 31 March 2018

Subsequent to the meeting, the Audit Committee Chairman reviewed the Annual Audit Letter for the previous year and was satisfied that no remedial action is required.

Member Working Group Conclusion

Upon overall review, Members were happy with the 2018/19 draft accounts. It was requested that a short report from the Working Group go back to the Audit Committee, alongside the presentation of the Accounts on 18 July 2019.